Rotherham Metropolitan Borough Council

Public Report
Cabinet

Committee Name and Date of Committee Meeting
Audit Committee – 26 November 2019

Report Title
Mid-Year Treasury Management and Prudential Indicators Monitoring Report – 2019/20

Is this a Key Decision and has it been included on the Forward Plan?
No

Strategic Director Approving Submission of the Report
Judith Badger, Strategic Director of Finance and Customer Services

Report Author(s)
Rob Mahon, Head of Corporate Finance
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Ward(s) Affected
Borough-Wide

Report Summary

Mid-Year Treasury Review

The regulatory framework of treasury management requires that the Council produces a mid-year treasury review, this being in addition to the forward looking annual treasury strategy and backward looking annual treasury report.

This report is the mid-year review for 2019/20. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).

It is also a requirement that any proposed changes to the 2019/20 prudential indicators are approved by Council.

The monitoring as set out in the Appendix to the report is structured to highlight the key changes to the Council's capital activity (the PIs) and the actual and proposed treasury management activity (borrowing and investment).

The key messages for Members are:

a. Investments - the primary governing principle remains security over return and the criteria for selecting counterparties continues to reflect this.

b. Borrowing - The Council's Treasury Management Strategy provides the option for the Council to take out up to £60m of new long-term borrowing by 2019/20 to reduce the amount of under-borrowing over time. However, the Council will maintain its strategy of being significantly under-borrowed against the capital financing requirement, as the most cost effective approach in the current financial climate. This position will remain under review and an update of the strategy will be presented to Members within the Budget and Council Tax 2020/21 report to Council in February 2020.

c. Governance - strategies and monitoring are undertaken by Audit Committee.

Recommendations

1. Audit Committee is asked to note the contents of the report.

List of Appendices Included

Appendix – Mid-Year Treasury Management and Prudential Indicators Monitoring Report – 2019/20.

Background Papers

Budget and Council Tax Setting Report 2019/20 to Council on 27th February 2019, Including the Treasury Management Strategy 2019/20

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No.

Council Approval Required

No

Exempt from the Press and Public

No.

1. Background

1.1 **Mid-Year Treasury Review** – The CIPFA Treasury Management Code of Practice includes a requirement that the Council receive a mid-year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.

1.2 This review as fully set out in the Appendix meets the revised requirement as set out in section 2.1 above. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Management Strategy and PIs were previously reported to Cabinet on 18th February 2019 and approved by Council on 27th February 2019.

2. Key Issues

2.1 Mid-Year Treasury Review – The review as set out in the Appendix provides Members with details of mid-year performance against the plan.

2.2 The key messages for Members are:

A. Investments - the primary governing principle remains security over return and the criteria for selecting counterparties continues to reflect this.

B. Borrowing - The Council's treasury management strategy provides the option for the Council to take out up to £60m of new long-term borrowing by 2019/20 to reduce the amount of under-borrowing over time. However the Council will maintain its strategy of being significantly under-borrowed against the capital financing requirement, as the most cost effective approach in the current financial climate. This position will remain under review and an update of the strategy will be presented to Members within the Budget and Council Tax 2020/21 report to Council in February 2020.

C. Governance - strategies and monitoring are undertaken by Audit Committee.

3. Options considered and recommended proposal

3.1 Mid-Year Treasury Review – The review as set out in the Appendix indicates performance is in line with the plan and no proposals to vary the approach for the remainder of the year are proposed.

4. Consultation on proposal

4.1 The continuing approach to treasury management has been discussed with the Council's external Treasury Management Advisers, Link Asset Services, who have confirmed this is a prudent approach given current market conditions.

5. **Timetable and Accountability for Implementing this Decision**

5.1 The report is for Audit Committee information and noting.

6. **Financial and Procurement Advice and Implications**

6.1 Treasury Management forms an integral part of the Council's overall financial arrangements.

6.2 The assumptions supporting the capital financing budget for 2019/20 and for future years covered by the Council's MTFS were reviewed in light of economic and financial conditions and the capital programme.

6.3 The current strategy is to maintain the Council's position of being significantly under-borrowed against the Capital Financing Requirement and to optimise cash-flows by using short-term loans rather than taking out new longer term debt. This strategy takes advantage of the low interest rates currently available for short term loans and generates savings against the 2019/20 budget which are reflected in the financial monitoring reports.

7. **Legal Advice and Implications**

7.1 It is a requirement that changes to the Council's prudential indicators are approved by Council

8. **Human Resources Advice and Implications**

8.1 There are no Human Resource implications arising from the report.

9. **Implications for Children and Young People and Vulnerable Adults**

9.1 The report does not impact the Children's and Adult Social care budgets.

10. **Equalities and Human Rights Advice and Implications**

10.1 There are no implications arising from this report to Equalities and Human Rights.

11. **Implications for Partners**

11.1 There are no implications arising from this report to Partners or other directorates.

12. **Risks and Mitigation**

12.1. Regular monitoring of treasury activity ensures that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

13. Accountable Officers

Graham Saxton, Assistant Director – Financial Services
Rob Mahon, Head of Corporate Finance

Approvals obtained on behalf of Statutory Officers:-

	Named Officer	Date
Chief Executive	Sharon Kemp	Click here to enter a date.
Strategic Director of Finance & Customer Services (S.151 Officer)	Graham Saxton	Click here to enter a date.
Head of Legal Services (Monitoring Officer)	Bal Nahal	Click here to enter a date.

Report Author: *Rob Mahon, Head of Corporate Finance*

This report is published on the Council's website.

Appendix

Mid-Year Prudential Indicators and Treasury Management Monitoring

1. Introduction and Background

1.1 The CIPFA Treasury Management Code of Practice includes a requirement that the Council receive a mid-year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.

1.2 This report meets that revised requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Management Strategy and PIs for 2019/20 were previously reported to Cabinet on 18th February 2019 and approved by Council on 27th February 2019.

1.3 The Council's revised capital expenditure plans and the impact of these revised plans on its financing are set out below in Sections 2.2 and 2.3 respectively. The Council's capital spending plans provide a framework for the subsequent treasury management activity. Section 3 onwards sets out the impact of the revised plans on the Council's treasury management indicators.

1.4 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Communities & Local Government Investment Guidance. This states that Members receive and adequately scrutinise information on the treasury management service.

1.5 The underlying economic and financial environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with low risk counterparties. The downside of such a policy is that investment returns remain low.

1.6 As the Council continues to utilise the short term borrowing market to generate interest rate savings as part of approved budget plans, the level of short term borrowing will continue to rise. As a result of this the Council needs to increase its prudential indicator for borrowing volumes with a maturity date less than 12 months, currently set at 35% of total borrowing. This change would come into effect as part of the Treasury Management Strategy for 2020/21 to be put to Council for approval in February 2020.

1.7 On 9th October PWLB made a significant change to their long term borrowing rates increasing them all by 1%. The primary aim of which was to reduce the level of commercial activities that some councils are borrowing to fund, due to the inherent risks within these types of investments. The immediate impact of this decision is to return PWLB rates to the levels that they were around 12 months ago. The Council keeps interest rates under constant review within it's borrowing strategies and decisions on the mix of long-term and short-term borrowing.

1.8 The Strategic Director for Finance & Customer Services can report that the basis of the Treasury Management Strategy, the Investment Strategy and the PIs (aside from the under 12 months indicator referenced above) have not changed from that set out in the approved Treasury Management Strategy (February 2019).

2. Key Prudential Indicators

2.1. This part of the report is structured to update:

- The Council's latest capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the PIs and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

2.2 Capital Expenditure (PI)

2.2.1 This table shows the current forecast estimates for capital expenditure. This position reflects slippage on the capital programme for 2018/19 which was rolled into 2019/20, as reported in the financial outturn report to Cabinet in July 2019, and new scheme approvals during the year.

Capital Expenditure by Service	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Children and Young People's Services	9.288	12.508
Assistant Chief Executive	1.338	0.627
Adult Care & Housing	4.069	4.764
Finance and Customer Services	5.187	7.072
Regeneration and Environment	39.374	46.314
Capitalisation Direction	2.000	2.000
Total Non-HRA	**61.256**	**73.284**
Adult Care & Housing – HRA	41.888	50.444
Total HRA	**41.888**	**50.444**
Total	**103.144**	**123.729**

2.3 Impact of Capital Expenditure Plans

2.3.1 **Changes to the Financing of the Capital Programme**

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the expected financing arrangements of this capital expenditure.

Capital Expenditure	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Total spend	103.144	123.729
Financed by:		
Capital receipts	7.324	19.272
Capital grants, capital contributions & other sources of capital funding	60.630	70.054
Borrowing Need	35.190	34.403
Total Financing	**103.144**	**123.729**
Unsupported Borrowing	35.190	34.403
Borrowing Need	**35.190**	**34.403**

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision (MRP)). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

2.3.2 The decrease in borrowing need for 2019/20 (£0.787m) reflects the re-profiling of capital expenditure & financing and the replacement of planned borrowing with new grant allocations.

2.3.3 **Changes to the Capital Financing Requirement (PI), External Debt and the Operational Boundary (PI)**

The table below shows the CFR, which is the underlying external need to borrow for a capital purpose. It also shows the expected debt position over the period. This expected debt position has previously been used as the basis for the Operational Boundary PI. This was set at the beginning of the financial year at £870.142m. There may be periods where the actual position rises above the Operational Boundary, but this is acceptable practice. It is the Authorised Limit which the Council must not breach. However during 2019/20 it is not expected that the Operational Boundary will be breached as the Council continues to utilise short term borrowing.

2.3.4 In addition to showing the underlying need to borrow, the Council's CFR includes other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets. No borrowing is actually required against these schemes as a borrowing facility is already included in the contract and there has been no change in the borrowing need resulting from these requirements.

2.3.5 The current CFR estimate for 2019/20 is £859.012m and this figure represents an increase of £33.582m when compared to the 2018/19 year-end position of £825.589m. The increase is predominantly due to reflecting the

Councils approved Capital Programme within the revised CFR estimate, a further adjustment is made to reflect the repayments of borrowing within PFI schemes. These two adjustments are detailed below;

- The estimated borrowing need for the year £36.342m net of the Minimum Revenue Provision charge for the year (£3.946m)
- The repayments of borrowing contained within PFI and similar schemes (£2.760m).

In addition, the overall Capital Financing Requirement for 2019/20 has increased due to a review of how MRP charges for PFI assets are reflected in the overall CFR. This does not impact on revenue costs, but it does more accurately reflect the Council's overall CFR position.

Prudential Indicator – Capital Financing Requirement	**2019/20 Original Estimate £m**	**2019/20 Revised Estimate £m**
CFR – Non Housing	419.241	427.161
CFR – Housing	304.125	305.075
Total CFR excluding PFI, finance leases and similar arrangements	**723.366**	**732.236**
Net movement in CFR	**26.928**	**36.342**
Cumulative adjustment for PFI, finance leases and similar arrangements	126.776	126.776
Net movement in CFR	**-2.850**	**-2.760**
Total CFR including PFI, finance leases and similar arrangements	850.142	859.012
Net movement in overall CFR	**24.078**	**33.582**
Prudential Indicator – Operational Boundary	**Original Estimate**	**Current Position**
Borrowing	743.366	743.366
Other long term liabilities*	126.776	126.776
Total Debt 31 March	**870.142**	**870.142**

* Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Former SYCC Operational Boundary for External Debt	2019/20 Original Estimate £m	Current Position £m	2019/20 Revised Estimate £m
Borrowing	19.689	19.689	19.689
Other long term liabilities	0.000	0.000	0.000
Total Debt 31 March	**19.689**	**19.689**	**19.689**

3. Limits to Borrowing Activity

3.1 The first key control over the treasury activity is a PI to ensure that over the medium term, gross and net borrowing will only be for a capital purpose. Gross and net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which would only be undertaken if this proves prudent to do so.

RMBC	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Gross Borrowing	681.524	676.290
Plus Other Long Term liabilities*	126.776	126.776
Total Gross Borrowing	**808.300**	**803.066**
CFR*	850.142	859.012
Total Gross Borrowing	808.300	803.066
Less Investments	20.000	20.000
Net Borrowing	**788.300**	**783.066**
CFR*	850.142	859.012

* Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

3.2 The Strategic Director for Finance & Customer Services reports that no difficulties are envisaged for the current or future years in complying with this PI.

3.3 A further PI controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt (RMBC)	**2019/20 Original Indicator £m**	**2019/20 Revised Indicator £m**
Borrowing	759.534	759.534
Other long term liabilities*	129.312	129.312
Total	**888.846**	**888.846**

* Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Former SYCC - Authorised Limit for External Debt	**2019/20 Original Estimate £m**	**2019/20 Current Position £m**	**2019/20 Revised Estimate £m**
Borrowing	19.689	19.689	19.689
Other long term liabilities	0.000	0.000	0.000
Total	**19.689**	**19.689**	**19.689**

3.4 The Strategic Director for Finance & Customer Services reports that no difficulties are envisaged for the current or future years in complying with this PI.

4. Treasury Strategy 2019/20

4.1 Debt Activity during 2019/20

4.1.1 The expected borrowing need is set out below:

RMBC	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
CFR	850.142	859.012
Less Other Long Term Liabilities*	126.776	126.776
Net Adjusted CFR (y/e position)	**723.366**	**732.236**
Borrowed at 30/09/19	681.524	605.546
Invested at 30/09/19	0.000	-13.890
Under borrowing at 30/09/19	**41.842**	**140.580**
Borrowed at 30/09/19	681.524	605.546
Estimated additional borrowing to be taken October to March 2020	0.000	70.744
Total Borrowing	**681.524**	**676.290**
Under borrowing at 31/03/19	41.842	55.946
Level of short term borrowing as 31/3/19		268.901

* Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

4.1.2 The Council is currently significantly under-borrowed. The delay in borrowing long-term reduces the cost of carrying borrowed monies when yields on investments are low relative to the borrowing rates. Based on current borrowing rates and investment returns the differential is around 2% and if the Council was fully borrowed the additional cost per year would amount to over £3m. The delay in taking out new long-term borrowing does give rise to an element of interest rate risk, as longer term borrowing rates may rise, but this position is being closely monitored and the overall position carefully managed.

4.1.3 During the six months to 30 September 2019 the Council has taken out the following amounts of short-term borrowing shown in the table below. The borrowing taken highlights the Council's current position of utilising low rate short term loans to generate significant savings. The following loans were required for a combination of debt refinancing, pension fund payments profile and cashflow management.

Lender	Principal	Type	Term	Interest Rate %
Local Authority	£10,000,000	Temp	13 Months	1.10
Local Authority	£5,000,000	Temp	11 Months	1.00
Local Authority	£15,000,000	Temp	10 Months	0.90
Local Authority	£10,000,000	Temp	10 Months	0.90
Local Authority	£5,000,000	Temp	9 Months	1.00
Local Authority	£5,000,000	Temp	9 Months	1.00
Local Authority	£8,000,000	Temp	9 Months	0.90
Local Authority	£5,000,000	Temp	9 Months	0.90
Local Authority	£5,000,000	Temp	9 Months	0.89
Local Authority	£5,000,000	Temp	9 Months	0.90
Local Authority	£5,000,000	Temp	9 Months	0.90
Local Authority	£14,000,000	Temp	9 Months	0.85
Local Authority	£15,000,000	Temp	8 Months	0.90
Local Authority	£20,000,000	Temp	6 Months	0.90
Local Authority	£8,000,000	Temp	6 Months	0.90
Local Authority	£2,000,000	Temp	6 Months	0.90
Local Authority	£5,000,000	Temp	6 Months	0.90
Local Authority	£5,000,000	Temp	6 Months	0.90
Local Authority	£3,000,000	Temp	5 Months	0.90
Local Authority	£5,000,000	Temp	4 Months	0.85
Local Authority	£10,000,000	Temp	3 Months	0.80
Local Authority	£10,000,000	Temp	3 Months	0.85
Local Authority	£10,000,000	Temp	14 Day Notice Period	0.80
Local Authority	£10,000,000	Temp	14 Day Notice Period	0.75
Local Authority	£10,000,000	Temp	14 Day Notice Period	0.75

4.1.4 During the six months to 30 September 2019, the Council has repaid a number of long-term loans from the PWLB, and short-term loans from the Local Authority lending market. The principal repaid, and interest rates are detailed in the table below.

Included within the long-term loans is one Equal Instalment of Principal (EIP) loan for £20m is being repaid in equal half yearly instalments of £1m over its 10 year term. A second EIP loan for £1.3m is being repaid in equal half yearly instalments of £65,000 over its 10 year term. There are 5 Annuity loans on which variable amounts of principal are repaid each six months.

Lender	Principal	Type	Interest Rate %
PWLB	£1,000,000	Fixed rate (EIP)	3.46
PWLB	£65,000	Fixed rate (EIP)	1.89
PWLB	£90,432	Fixed rate (Annuity)	Various
PWLB	£10,000,000	Fixed rate	3.01
Local Authority	£5,000,000	Temp	0.65
Local Authority	£10,000,000	Temp	0.65
Local Authority	£10,000,000	Temp	0.65
Local Authority	£10,000,000	Temp	0.85
Local Authority	£5,000,000	Temp	0.90
Local Authority	£5,000,000	Temp	0.90
Local Authority	£5,000,000	Temp	0.90
Local Authority	£5,000,000	Temp	0.90
Local Authority	£3,000,000	Temp	0.82
Local Authority	£3,000,000	Temp	0.80
Local Authority	£2,000,000	Temp	0.95
Local Authority	£10,000,000	Temp	0.95
Local Authority	£5,000,000	Temp	0.95
Local Authority	£3,000,000	Temp	0.80
Local Authority	£6,000,000	Temp	0.95
Local Authority	£5,000,000	Temp	0.85
Local Authority	£15,000,000	Temp	1.00
Local Authority	£10,000,000	Temp	1.00
Local Authority	£10,000,000	Temp	0.80
Local Authority	£3,000,000	Temp	0.90
Local Authority	£5,000,000	Temp	0.85
Local Authority	£10,000,000	Temp	0.85
Local Authority	£10,000,000	Temp	0.80
Local Authority	£10,000,000	Temp	0.80

5. Investment Strategy 2019/20

5.1 Key Objectives

The primary objective of the Council's Investment Strategy is safeguarding the repayment of the principal and interest of its investments on time – the investment return being a secondary objective. The current difficult economic and financial climate has heightened the Council's over-riding risk consideration with regard to "Counterparty Risk". As a result of these underlying market concerns, officers continue to implement an operational investment strategy which maintains the tight controls already in place in the approved Investment Strategy.

5.1.1 The Council is currently operating a strategy, whereby it is utilising the low rates available in the short term inter-local authority lending market to hold a position of being under borrowed, with the vision of not entering into any long term borrowing until required. This means that the Council has less day to day cash to invest. Historically the Council would place any cash surpluses into one of the following investment options, Debt Management Office (DMO currently at 0.5%), or Bank Deposits (e.g. Handlesbanken currently at 0.55%).

5.1.2 However since June 2018 the Council has been making a greater return on its investments by utilising Money Market Funds's (MMF's), which had comparable investment returns ranging from 0.52% to 0.79%, and above. The process for using MMF's is very efficient and effective, with the added benefit that the funds the Council can access are all AAA rated. To enable the Councils Treasury Management Team to make best use of this market, in the most efficient and cost effective way the following change was implemented as part of the Treasury Management Strategy for 2019/20 approved by Members within the Budget and Council Tax 2019/20 report:

Previous Rule:

- Money Market Funds – AAA – restricted to a maximum of 20% of the investment portfolio

New Rule:

- Money Market Funds – AAA – restricted to a maximum investment of £10m per fund

5.2 **Current Investment Position**

The Council held £13.890m of investments at 30 September 2019, and the constituent parts of the investment position are:

Sector	Country	Up to 1 year £m	1 - 2 years £m	2 – 3 years £m
Banks	UK	0	0	0
DMO	UK	0	0	0
MMF's	UK	13.890	0	0
Total		**13.890**	**0**	**0**

One 'call' account with the top rated bank Handlesbanken is operated. This bank meets the Council's highest investment criteria. This enables the Council to minimise the risk of having to leave unexpected receipts with the Council's current bankers. It allows immediate access to a small amount of funds to cover or part cover any short-term borrowing requirements. However, at present the flexibility and rates that the MMF's offer, mean this account is not currently being utilised.

5.3 **Risk Benchmarking**

A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are requirements to Member reporting and the following reports the current position against the benchmarks:

5.3.1 **Security** – The Council monitors its investments against historic levels of default by continually assessing these against the minimum criteria used in the Investment Strategy. The Council's approach to risk, the choice of counterparty criteria and length of investment ensures any risk of default is minimal when viewed against these historic default levels.

5.3.2 **Liquidity** – In respect of this area the Council set liquidity facilities/benchmarks to maintain:

- Bank overdraft – on a day-to-day basis the Council works to an agreed overdraft limit of £100,000 with the Council's bankers. Whilst a short-term increase could be negotiated less expensive short-term borrowing is accessed through the financial markets to remain within the agreed overdraft.
- Liquid short-term deposits of at least £3m available within a week's notice.

The Strategic Director for Finance & Customer Services can report that liquidity arrangements were adequate during the year to date.

5.3.3 **Yield** – a local measure for investment yield benchmark is internal returns above the 7 day London Interbank Bid Rate (LIBID).

The Strategic Director for Finance & Customer Services can report that the return to date averages 0.74%, against a 7 day LIBID to the end of September 2019 of 0.57%. This is reflective of the Council's current approach utilising Money Market Funds to generate additional investment returns.

Based on the Council's current average cash investments of £22m, the additional return achieved compared to benchmark would be £37.3k.

6. Revisions to the Investment Strategy

6.1 The counterparty criteria are continually under regular review but in the light of the current market conditions no recommendations are being put to Members to revise the Investment Strategy.

7. Treasury Management Prudential Indicators

7.1 Actual and estimates of the ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

	2019/20 Original Indicator %	2019/20 Current Position %
Non-HRA	6.85	5.79
HRA	15.75	15.98

7.2 The current position reflects in-year changes to the capital programme and minor fluctuations in interest rates.

7.3 Prudential indicator limits based on debt net of investments

- **Upper Limits On Fixed Rate Exposure** – This indicator covers a maximum limit on fixed interest rates.

- **Upper Limits On Variable Rate Exposure** – Similar to the previous indicator this identifies a maximum limit for variable interest rates based upon the debt position net of investments.

RMBC	2018/19 Original Indicator	Current Position
Limits on fixed interest rates based on net debt	100%	79.15%
Limits on variable interest rates based on net debt	30%	20.85%

7.4 Maturity Structures Of Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

The current position shown below reflects the next call dates on those Council's LOBO loans (£62m) that are not callable in 2019/20 and thus are regarded as fixed rate. The actual maturity date for most of these loans is greater than 50 years. This approach gives a better indication of risk and whilst there is a possibility that a loan is called with an increase in interest payable the likelihood of any LOBO loans being called in the current climate is assessed as zero for the next three years.

It should be noted here that the upper limit for debt with maturity within 12 months has been breached and it is now proposed that it would be prudent to increase this upper limit in order for 2020/21 to better align with the Council's ongoing strategy of utilising the benefits of short term borrowing.

RMBC	**2019/20 Original Indicator**		**Current Position**	
	Lower	**Upper**	**%**	**£m**
Under 12 months	0%	35%	36.41%	220.480
12 months to 2 years	0%	35%	4.18%	25.328
2 years to 5 years	0%	45%	5.70%	34.508
5 years to 10 years	0%	45%	0.21%	1.260
10 years to 20 years	0%	45%	6.71%	40.637
20 years to 30 years	0%	50%	0.83%	5.000
30 years to 40 years	0%	50%	17.56%	106.336
40 years to 50 years	0%	55%	11.89%	72.000
50 years and above	0%	60%	16.51%	100.000

The former SYCC account is due to be wound up by the end of 2020/21 and the maturity structure is now fixed. As a result future limits are currently set in line with the on-going maturity profile.

Former SYCC	2019/20 Original Indicator		Current Position	
	Lower	Upper	%	£m
Under 12 months	0%	60%	0.00%	19.689
12 months to 2 years	0%	75%	0.00%	0.000
2 years to 5 years	0%	100%	0.00%	0.000

7.5 **Total Principal Funds Invested**

These limits are set to reduce the need for the early sale of an investment, and show limits to be placed on investments with final maturities beyond each year-end.

The Council currently has no sums invested for periods exceeding 364 days due to market conditions. To allow for any changes in those conditions the indicator has been left unchanged. This also excludes any Icelandic investments that are due to be recovered after more than 364 days.

RMBC	2017/18 Original Indicator £m	Current Position £m
Maximum principal sums invested > 364 days	10	0
Cash deposits	10	0

7.6 **Treasury Management Advisers**

Following a three year contract with Link Asset Services Treasury Solutions (LAS) for the provision of treasury management and asset finance services, the Council has extended the contract for a further year.